

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE MONROE COUNTY )  
WATER DISTRICT FOR THE APPROVAL OF ) CASE NO.  
THE PROPOSED INCREASE IN RATES FOR ) 2011-00272  
WATER SERVICE )

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of October 28, 2011, the attached report containing the findings and recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding.

  
\_\_\_\_\_  
Jeff Derouen  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED: NOV 03 2011

cc: Parties of Record

STAFF REPORT  
ON  
MONROE COUNTY WATER DISTRICT  
CASE NO. 2011-00272

Pursuant to a request by Monroe County Water District ("Monroe County") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited financial review of Monroe County's test-period operations, for the calendar year ending December 31, 2010. The scope of Staff's review was limited to obtaining information as to whether the test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed.

Mark Frost and Sam Reid of the Commission's Division of Financial Analysis performed the limited review. This report summarizes Staff's review and recommendations. Mr. Reid is responsible for the pro forma revenue adjustment, the Cost-of-Service Study, and the calculation of the recommended rates. Mr. Frost is responsible for all pro forma expense adjustments, the revenue requirement determination, and cash flow calculations.

Upon completion of its limited review, Staff assisted Monroe County in the preparation of its rate application, which Monroe County filed with the Commission on August 15, 2011. Staff finds that Monroe County accurately reports its test-period operations in its application and that the proposed pro forma adjustments meet the ratemaking criteria of known and measurable. Appendix A is Monroe County's pro

forma operating income statement. Appendix B contains an explanation of each pro forma adjustment accepted by Staff.

As shown in Table 1, Monroe County's requested pro forma operations supports a revenue requirement from rates of \$1,504,411, an increase of \$314,606, or 26.4 percent, above the normalized revenue from rates of \$1,189,805.

<b>Table 1: Revenue Requirement</b>			
	Average		
	Debt Service	Coverage	Requirement
Debt Service Coverage	\$ 215,446	x 0.2	= \$ 43,089
Debt Service			215,446
Add: Pro Forma Operating Expenses			1,005,753
Depreciation			290,670
Taxes Other Than Income			+ 24,416
Total Revenue Requirement			\$ 1,579,374
Less: Other Income & Deductions			- 15,270
Revenue Requirement from Operations			\$ 1,564,104
Less: Other Operating Revenues			- 59,693
Revenue Requirement from Water Sales			\$ 1,504,411
Less: Pro Forma Revenue - Water Sales			- 1,189,805
<b>Requested Increase</b>			<b>\$ 314,606</b>
<b>Percentage Increase</b>			<b>26.442%</b>

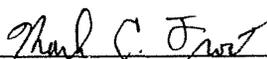
Monroe County proposes to phase-in its requested increase over two years to lessen the proposed rate adjustment's effect on ratepayers. Under its proposal, Monroe County will immediately adjust its rates to increase annual revenues \$157,541, or approximately 11.69 percent. One year later it will adjust its rates again to generate additional annual revenues of \$158,413.<sup>1</sup> As shown in Table 2, the total revenues generated from the first phase of the proposed rate adjustment is sufficient to meet annual pro forma "cash" expenses and the debt-service coverage requirement of Monroe County's bond ordinances in 2012. Similarly, the total revenues generated from the latter phase of the proposed rate adjustment will meet such requirements in 2013.

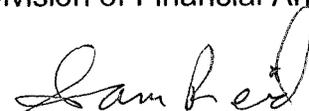
<sup>1</sup> Application at 3.

Table 2: Annual Cash Flows and Debt Service Requirements		
	2012	2013
Normalized Revenue - Water Sales 2010	\$ 1,189,805	\$ 1,189,805
Add: Requested Increase	+ 157,541	+ 314,606
Revenues - Water Sales	\$ 1,347,346	\$ 1,504,411
Add: Other Income & Deductions	15,270	15,270
Other Operating Revenues	+ 59,693	+ 59,693
Total Revenues Available for Operating Exp. and Debt Service	\$ 1,422,309	\$ 1,579,374
Less: Operating Expenses	- 1,320,839	- 1,320,839
Net Operating Income	\$ 101,470	\$ 258,535
Add: Depreciation & Amortization	+ 290,670	+ 290,670
Income Available for Debt Service	\$ 392,140	\$ 549,205
Less: Annual Debt Service	- 216,550	- 214,851
Net Cash Flow	\$ 175,590	\$ 334,354
Income Available for Debt Service	\$ 392,140	\$ 549,205
Divided by: Annual Debt Service	÷ 175,590	÷ 214,851
Debt Service Coverage	2.23	2.56

Commission Staff finds that Monroe County's proposed rates, which are set forth in Appendix C, will produce the recommended revenue requirements and reasonably reflect the water district's cost to furnish service within each water usage block. Commission Staff further finds that Monroe County's cost-of-service study, which is an exhibit to the water district's application, was prepared in accordance with accepted ratemaking standards and that its results fully support the proposed rates.

Signatures

  
 Prepared by: Mark C. Frost  
 Financial Analyst, Water and Sewer  
 Revenue Requirements Branch  
 Division of Financial Analysis

  
 Prepared by: Sam Reid  
 Rate Analyst, Communications, Water  
 and Sewer Rate Design Branch  
 Division of Financial Analysis

APPENDIX A  
STAFF REPORT CASE NO. 2011-00272  
PRO FORMA OPERATIONS

	2009 Annual Report	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Revenue – Metered Water Sales	\$ 1,134,222	\$ 55,583	(a)	\$ 1,189,805
Other Operating Revenues:				
Forfeited Discounts	23,297	0		23,297
Misc. Service Revenues	36,396	0		36,396
Total Other Operating Rev.	\$ 59,693	\$ 0		\$ 59,693
Total Operating Rev.	\$ 1,193,915	\$ 55,583		\$ 1,249,498
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages – Emp.	\$ 259,424	\$ 29,618	(b)	\$ 289,042
Salaries & Wages – Com.	6,000	0		6,000
Emp. Pension & Benefits	20,683	44,552	(c)	65,235
Purchased Water	356,768	31,740	(d)	388,508
Purchased Power	48,122	0		48,122
Materials & Supplies	62,072	29,543	(e)	91,615
Cont. Services – Acct.	8,000	0		8,000
Cont. Services – Mgt.	14,278	(13,850)	(f)	428
Cont. Services – Water Testing	6,992	0		6,992
Cont. Services – Other	40,093	0		40,093
Transportation	19,757	0		19,757
Ins. – Gen. Liability	16,987	(1,507)	(g)	15,480
Ins. – Workers Comp.	5,673	948	(g)	6,621
Insurance – Other	45,256	(44,200)	(g)	1,056
Bad Debt Expense	5,273	0		5,273
Miscellaneous	22,626	(9,095)	(h)	13,531
Total Operation & Maint.	\$ 938,004	\$ 67,749		\$ 1,005,753
Depreciation	238,082	52,588	(i)	290,670
Taxes Other Than Income:				
Payroll Taxes	20,628	1,483	(j)	22,111
Other Tax & License	2,305	0		2,305
Utility Operating Exp.	\$ 1,199,019	\$ 121,820		\$ 1,320,839
Net Utility Operating Income	\$ (5,104)	\$ (66,237)		\$ (71,341)
Other Income & Deductions:				
Interest Income	15,270	0		15,270
Net Income Available for Debt Service	\$ 10,166	\$ (66,237)		\$ (56,071)

**APPENDIX B  
STAFF REPORT CASE NO. 2011-00272  
PRO FORMA ADJUSTMENTS**

**(a) Revenue from Water Sales:** This adjustment reflects the current rates applied to Commission Staff's billing Analysis.

	Bills	Gallons	Amount
Normalized Revenue from Water Sales - Existing	3,363	208,787,540	\$ 1,189,805
Less: Reported Revenue from Water Sales			- 1,134,222
Pro Forma Adjustment			<u>\$ 55,583</u>

**(b) Salaries & Wages:** Staff is applying the 2011 wages to the hours worked during the 2009 test period.

Position Title	2011 Wages	2009 Hours		Total
		Regular	Overtime	
Office Manager	\$ 17.40	2,080.00	63.00	\$ 37,836
Distribution Crew Supervisor	\$ 16.55	2,080.00	141.00	37,925
Accounts Receivable III	\$ 11.61	2,080.00	12.50	24,367
Customer Service Rep. Sup.	\$ 14.70	2,080.00	284.50	36,849
General Manager	\$ 21.63	2,080.00	54.00	46,742
Accounts Receivable III	\$ 11.15	2,080.00	44.00	23,928
Meter Tester/Equip. Operator II	\$ 14.70	2,080.00	144.50	33,762
Laborer II	\$ 11.39	2,080.00	42.50	24,417
Laborer	\$ 9.44	2,080.00	38.00	20,173
Accounts Receivable I	\$ 8.50	358.00	0.00	3,043
Pro Forma Salaries & Wages - Employees				\$ 289,042
Less: Reported 2009 Salaries & Wages - Employees				- 259,424
Pro Forma Adjustment				<u>\$ 29,618</u>

**(c) Employee Pension and Benefits:** Commission Staff's adjustment is based upon the current employer retirement contribution rate, the pro forma salaries and wages, and the current employee insurance premiums.

Position Title	Employee Benefits			Totals
	Health Ins.	Dental & Life	Retirement 8%	
Office Manager	\$ 4,912	\$ 353	\$ 3,027	\$ 8,292
Distribution Crew Supervisor	2,838	54	3,034	5,926
Accounts Receivable III	0	119	1,949	2,068
Customer Service Rep. Sup.	6,177	479	2,948	9,604
General Manager	6,291	590	3,739	10,620
Accounts Receivable III	6,291	470	1,914	8,675
Meter Tester/Equip. Operator II	4,650	180	2,701	7,531
Laborer II	6,178	590	1,953	8,721
Laborer	1,851	333	1,614	3,798
Accounts Receivable I	0	0	0	0
Pro Forma Emp. Pension and Benefits	<u>\$ 39,188</u>	<u>\$ 3,168</u>	<u>\$ 22,879</u>	<u>\$ 65,235</u>
Less: Reported 2009 Salaries & Wages - Employees				- 20,683
Pro Forma Adjustment				<u>\$ 44,552</u>

**(d) Purchased Water:** Commission Staff applied the purchased water rate that became effective on January 1, 2011 to the test-period water purchases.

Test-Period Purchased Water - Gallons	253,926.50
Purchased Water Rate Effective 01/01/2011	\$ 1.53
Pro Forma Purchased Water Expense	\$ 388,508
Less: Reported Purchased Water Expense	- 356,768
Pro Forma Adjustment	<u>\$ 31,740</u>

**(e) Materials & Supplies:** Commission Staff is correcting the amount reported in the annual report to reflect the results of its limited financial review.

Account		
No.	Title	
05250-0000	Uniforms	\$ 7,980
05300-0000	Supplies (Gen)	7,215
05310-0000	Supplies (In ground)	10,615
05350-0000	Utility Repairs - Maint	18,134
05360-0000	Equip Repairs - Maint	12,307
05400-0000	Office Expense	30,710
05410-0000	Office Maint - Repair	4,654
Materials & Supplies		\$ 91,615
Less: Materials & Supplies - 2009 Annual Report		- 62,072
Difference		<u>\$ 29,543</u>

**(f) Contractual Services - Management:** Upon its review of the general ledger and test-period invoices, Commission Staff determined that the listed capital expenditures had been incorrectly expensed.

Transaction		
Date	Description	
01/14/09	Administrative Fee - WRIS ID: WX21171027 Grant: 324N-2008	\$ (6,250)
04/14/09	Engineer R Hammer/Rhoton Water Line Extensions	(2,400)
05/12/09	Engineer Water Line Extensions	(4,000)
08/07/09	Engineering Roach Rd Water Line Extensions	+ (1,200)
Total Capital Expenditures		<u>\$ (13,850)</u>

**(g) Insurance:** Commission Staff is adjusting insurance expense to reflect the current premiums for general liability, workers' compensation, and bond coverage.

Insurance Type/Account	Current Premiums	Test-Period Premiums	Pro Forma Adjustment
KACO - General Liability	\$ 15,480	\$ 16,987	\$ (1,507)
KACO - Workers Compensation	6,621	5,673	948
Other - Bonds	1,056	45,256	+ (44,200)
Totals	<u>\$ 23,157</u>	<u>\$ 67,916</u>	<u>\$ (44,759)</u>

**(h) Miscellaneous:** Commission Staff is correcting the amount reported in the annual report to reflect the results of its limited financial review.

Account No.	Title		
05210-0000	Telephone	\$	4,961
05800-0000	Dues & Subs		6,494
05850-0000	Meetings & Educational		2,026
05900-0000	Miscellaneous Expense	+	50
Miscellaneous		\$	13,531
Less: Miscellaneous - 2009 Annual Report		-	22,626
Difference		\$	<u>(9,095)</u>

**(i) Depreciation:** Commission Staff is proposing to adjust test-period depreciation expense to reflect depreciation lives recommended by the National Association of Regulatory Utility Commissions.

		Staff Depreciation	
		Lives	Expense
Structures & Improvements	\$ 126,842	38	\$ 3,338
Pumping Equipment	413,988	20	20,699
Distribution Reservoirs	208,835	45	4,641
Transmission & Distribution Mains	1,292,182	50	25,844
Services	7,479,795	40	186,995
Meters & Installations	120,774	40	3,019
Other Plant	672,572	35	19,216
Furniture & Equipment	32,370	23	1,407
Transportation Equipment	85,363	7	12,195
Power Operated Equipment	173,102	13	13,316
CWIP	220,260	N/A	+ 0
Totals	<u>\$ 10,826,083</u>		\$ 290,670
Less: Reported Depreciation Expense			- 238,082
Pro Forma Adjustment			<u>\$ 52,588</u>

**(j) Payroll Taxes:** Commission Staff is applying the payroll tax rate to the normalized salaries and wages expense.

Position Title	Pro Forma Payroll	FICA
		\$76,000 7.65%
Office Manager	\$ 37,836	\$ 2,894
Distribution Crew Supervisor	\$ 37,925	2,901
Accounts Receivable III	\$ 24,367	1,864
Customer Service Rep. Sup.	\$ 36,849	2,819
General Manager	\$ 46,742	3,576
Accounts Receivable III	\$ 23,928	1,830
Meter Tester/Equip. Operator II	\$ 33,762	2,583
Laborer II	\$ 24,417	1,868
Laborer	\$ 20,173	1,543
Accounts Receivable I	\$ 3,043	+ 233
Pro Forma Payroll Tax		\$ 22,111
Less: Test Period Payroll Taxes		- 20,628
Pro Forma Adjustment		<u>\$ 1,483</u>

APPENDIX C  
STAFF REPORT CASE NO. 2011-00272  
STAFF'S RECOMMENDED  
RATES

**Monthly Rates – Phase I:**

5/8" x 3/4" Meter

First	2,000 gallons	\$ 15.96	Minimum Bill
Next	3,000 gallons	\$ 5.85	per 1,000 gallons
Next	5,000 gallons	\$ 4.97	per 1,000 gallons
Over	10,000 gallons	\$ 4.21	per 1,000 gallons

1" Meter

First	5,000 gallons	\$ 33.51	Minimum Bill
Next	5,000 gallons	\$ 4.97	per 1,000 gallons
Over	10,000 gallons	\$ 4.21	per 1,000 gallons

2" Meter

First	20,000 gallons	\$ 100.46	Minimum Bill
Over	20,000 gallons	\$ 4.21	per 1,000 gallons

WHOLESALE WATER RATE: \$ 2.11 per 1,000 gallons

**Monthly Rates – Phase II:**

5/8" x 3/4" Meter

First	2,000 gallons	\$ 17.15	Minimum Bill
Next	3,000 gallons	\$ 6.90	per 1,000 gallons
Next	5,000 gallons	\$ 5.70	per 1,000 gallons
Over	10,000 gallons	\$ 4.80	per 1,000 gallons

1" Meter

First	5,000 gallons	\$ 37.85	Minimum Bill
Next	5,000 gallons	\$ 5.70	per 1,000 gallons
Over	10,000 gallons	\$ 4.80	per 1,000 gallons

2" Meter

First	20,000 gallons	\$ 114.35	Minimum Bill
Over	20,000 gallons	\$ 4.80	per 1,000 gallons

WHOLESALE WATER RATE: \$ 2.11 per 1,000 gallons

Richard O Ross  
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Monroe County Water District  
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Tompkinsville, KY 42167